

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 EB-07 TRSE-00 L-03 NSC-05

CIAE-00 DODE-00 INR-07 NSAE-00 PA-01 USIA-06 PRS-01

SP-02 COME-00 FRB-03 CIEP-01 OMB-01 STR-04 CEA-01

XMB-02 /066 W

----- 054506

R 131740Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2116

INFO AMEMBASSY PARIS

AMEMBASSY SEOUL

AMEMBASSY PEKING

AMEMBASSY LONDON

AMEMBASSY TOKYO

AMEMBASSY MOSCOW

AMEMBASSY HELSINKI

AMEMBASSY STOCKHOLM

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY ROME

C O N F I D E N T I A L SECTION 01 OF 02 BONN 13094

E.O. 11652: GDS

TAGS: EFIN, EAID, NK, EEC, GW

SUBJECT: NORTH KOREA DEBT RESCHEDULING

REF: (A) STATE 190108, (B) BUDAPEST 1136

1. ALTHOUGH THE SUBJECT OF NORTH KOREAN DEBT HAS NOT BEEN RAISED IN THE COURSE OF EMBASSY CONTACTS WITH FINANCE, ECONOMICS, AND FOREIGN MINISTRIES, WE UNDERSTAND THAT FRG WILL PARTICIPATE IN AN INFORMAL MEETING
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OF PARIS CLUB MEMBERS ON SEPTEMBER 8. THE GERMANS

APPEAR TO REGARD SUCH A MEETING AS PURELY INFORMATIONAL AND DO NOT INTEND TO TAKE ANY ACTION AT THE MEETING. POLITICAL CONSIDERATIONS, WHICH WE BELIEVE WOULD ULTIMATELY RESULT IN FRG DECISION AGAINST FORMAL DEBT RESCHEDULING EXERCISE, DO NOT APPEAR DETERMINING IN DEALING WITH PURELY INFORMATION EXCHANGE GATHERING.

2. DECISION TO ATTEND INFORMAL MEETING WAS PROBABLY BASED ON PURELY FINANCIAL GROUNDS: FRG BANKS APPEAR TO BE HOLDING A LARGE SHARE OF PRK DEBTS TO THE EC (SEE REFTTEL B), AND LOAN GUARANTEES MAY WELL HAVE BEEN APPROVED BY FRG CREDIT INSURANCE SYSTEM. EXPANDING FRG EXPORTS TO NORTH KOREA AND RESULTING SIZABLE BILATERAL TRADE DEFICIT FOR THE PRK SUGGEST THAT GERMANS COULD WELL HAVE EXTENDED CREDITS TO THE PRK TO COVER MOST OF THE PAYMENTS DEFICIT. (BOP DEFICIT WAS \$21 MILLION IN 1973 AND \$56 MILLION IN 1974). WE ESTIMATE THAT PRK DEBT TO GERMANY IS IN THE NEIGHBORHOOD OF \$100 MILLION. AT SUCH A LEVEL, GERMAN BANKS WOULD UNDOUBTEDLY PRESS FRG FINANCE MINISTRY FOR PARTICIPATION

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 13094

IN A RESCHEDULING EXERCISE IF MASSIVE DEFAULTS WERE
FORESEEN.

3. AFTER THE INFORMAL MEETING IN SEPTEMBER, WE WOULD
EXPECT INTERAGENCY DISCUSSIONS TO FOCUS MORE DEEPLY ON
BOTH THE ECONOMIC AND THE POLITICAL ASPECTS OF THE
PROBLEM. FINANCIAL INTEREST IN RESCHEDULING COULD WELL
BE INTENSE IF PRK CREDITS HAVE, IN FACT, BEEN
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GUARANTEED. FRG FINANCE MINISTRY MIGHT POSSIBLY FAVOR
RESCHEDULING FOR THIS REASON, ESPECIALLY IF PRESSURES
FROM THE BANKING COMMUNITY, AS OUTLINED ABOVE,
MATERIALIZE. POSITION OF ECONOMICS MINISTRY WOULD BE
LESS CLEAR, SINCE TRADE-INHIBITING EFFECT OF FAILURE TO
RESCHEDULE, WHICH IS AN IMPORTANT CONCERN FOR THE
EXPORT-CONSCIOUS GERMANS, COULD BE OFFSET BY DESIRE TO
AVOID SETTING PRECEDENTS IN THE RESCHEDULING FIELD AT A
TIME WHEN THE FRG IS RUNNING A LARGE BOP SURPLUS WITH
NEARLY ALL STATE-TRADING NATIONS. FOREIGN MINISTRY,
FOR MANY OF THE SAME REASONS NOTED PARA 3 REFTEL A,
WOULD BE LIKELY TO OPPOSE RESCHEDULING ON POLITICAL
GROUND. WHILE THE FINAL DECISION COULD GO AS HIGH AS
THE CHANCELLOR, WE ARE ALMOST CERTAIN THAT THE GERMANS
ARE COGNIZANT OF THE BROADER IMPLICATIONS RESULTING
FROM RESCHEDULING AND IN THE END WILL NOT PARTICIPATE
IN A FORMAL PARIS CLUB EXERCISE.

4. ACTION REQUESTED: AS THE FRG IS NOT FAMILIAR WITH
US POSITION ON AND INTEREST IN THIS MATTER, DEPT MAY
WISH EMBASSY TO EXPRESS US VIEWS. PLEASE ADVISE.
CASH

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